

**REPORT OF THE AUDIT OF THE  
WAYNE COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Bruce Ramsey, Wayne County Judge/Executive  
Honorable James L. Hill, Wayne County Sheriff  
Members of the Wayne County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Wayne County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Wayne County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
WAYNE COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2003**

**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
Telephone (502) 499-9088  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE WAYNE COUNTY SHERIFF**

**For The Year Ended  
December 31, 2003**

Ross & Company, PLLC has completed the Wayne County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

#### **Financial Condition:**

Excess fees increased by \$4,607 from the prior year, resulting in excess fees of \$18,941 as of December 31, 2003. Revenues increased by \$63,306 from the prior year and expenditures increased by \$58,699.

#### **Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Not Transfer Funds Between Accounts
- The Sheriff Should Compensate Deputies Properly
- The Sheriff Has A Lack of Adequate Segregation of Duties

#### **Deposits:**

The Sheriff's deposits were not properly insured and collateralized by bank securities or bonds.





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The Honorable Bruce Ramsey, Wayne County Judge/Executive  
The Honorable James L. Hill, Wayne County Sheriff  
Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Wayne County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Bruce Ramsey, Wayne County Judge/Executive  
The Honorable James L. Hill, Wayne County Sheriff  
Members of the Wayne County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Not Transfer Funds Between Accounts
- The Sheriff Should Compensate Deputies Properly
- The Sheriff Has A Lack of Adequate Segregation of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Wayne County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -  
February 7, 2005

WAYNE COUNTY  
JAMES L. HILL, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Payments - Lake Patrol		\$	9,250
State - Kentucky Law Enforcement Foundation Program Fund			16,592
State Fees For Services:			
Finance and Administration Cabinet			11,115
Circuit Court Clerk:			
Sheriff Security Service	\$	11,528	
Fines and Fees Collected		<u>3,667</u>	15,195
Fiscal Court			135,536
County Clerk - Delinquent Taxes			1,279
Commission On Taxes Collected			163,071
Fees Collected For Services:			
Auto Inspections	\$	6,760	
Accident and Police Reports		196	
Serving Papers		13,755	
Carrying Concealed Deadly Weapon Permits		<u>2,985</u>	23,696
Other:			
Transports	\$	8,350	
Tax Penalty Fees		27,350	
Reimbursements		699	
Miscellaneous		<u>241</u>	36,640
Interest Earned			617
Borrowed Money:			
State Advancement	\$	54,981	
Bank Note		<u>14,000</u>	<u>68,981</u>
Total Revenues		\$	481,972

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY  
 JAMES L. HILL, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2003  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 225,921	
Part-Time Salaries	<u>20,328</u>	\$ 246,249

Employee Benefits-

Employer's Share Retirement		1,072
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Contracted Services-

Advertising	\$ 368	
Contract Labor	<u>505</u>	873

Materials and Supplies-

Office Materials and Supplies	\$ 6,693	
Uniforms	<u>7,506</u>	14,199

Auto Expense-

Gasoline	\$ 21,154	
Maintenance and Repairs	<u>16,765</u>	37,919

Other Charges-

Conventions and Travel	\$ 3,938	
Dues	429	
Postage	414	
Film and Developing	131	
Communications	2,347	
Carrying Concealed Deadly Weapon Permits	2,085	
Miscellaneous	<u>1,005</u>	10,349

Capital Outlay-

Office Equipment	\$ 2,355	
Vehicles	<u>14,000</u>	16,355

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY  
 JAMES L. HILL, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2003  
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	54,981	
Notes		14,000	
Interest		<u>245</u>	\$ <u>69,226</u>

Total Expenditures			\$ <u>396,242</u>
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Net Revenues			\$ 85,730
Less: Statutory Maximum	\$	63,753	
Training Incentive Benefit		<u>3,036</u>	<u>66,789</u>

Excess Fees Due County for 2004			\$ 18,941
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Payments to Fiscal Court - February 4, 2004	\$	18,921	
September 24, 2004		<u>20</u>	<u>18,941</u>

Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).



WAYNE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2003  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 6, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$20,247 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official or as of November 6, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,853,485
Uncollateralized and uninsured	<u>20,247</u>
Total	<u><u>\$ 2,973,732</u></u>

WAYNE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2003  
(Continued)

Note 4. Marijuana Eradication Fund

The Sheriff maintained a Marijuana Eradication Fund during 2003. The beginning balance in this account as of January 1, 2003 was \$11,619. During 2003, receipts were \$32,173. Disbursements for the year were \$15,200. Ending balance as of December 31, 2003 was \$28,592.

## COMMENTS AND RECOMMENDATIONS



WAYNE COUNTY  
JAMES L. HILL, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On November 6, 2004, \$20,247 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*None*

The Sheriff Should Not Transfer Funds Between Accounts

KRS 68.210 requires that the Sheriff comply with all legal requirements related to the management of public funds by his office. One of these requires that the Sheriff not commingle funds. The Sheriff transferred \$10,800 from his Drug Eradication Account to his Fee Account. These funds were later transferred back to the Drug Eradication Account. We recommend that the Sheriff not transfer funds between accounts.

*Sheriff's Response:*

*We were unaware that this was not allowed. Will discontinue this practice.*

The Sheriff Should Compensate Deputies Properly

KRS 64.350 states that the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant.

The Sheriff is under contract with ADANTA to transport mental patients. When deputies transport mental patients the deputies receive, from the fee account, the amount the Sheriff is reimbursed for these transports. If the transport occurs during their shift, they receive the difference between their hourly rate and the Sheriff's reimbursed rate.

Transporting mental patients is a function of the Sheriff's Department. Deputies are employees of the Sheriff's department and are compensated at an hourly rate as well as an overtime rate for hours worked in excess of 40 per week. Since transporting mental patients is a normal function of the department, we recommend that deputies be compensated at their normal rate.

The ADANTA reimbursements should be deposited in the Fee Account and used for the normal operations of the office.

*Sheriff's Response:*

*We were unaware that this was not allowed. Will discontinue this practice.*

WAYNE COUNTY  
JAMES L. HILL, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended December 31, 2003  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff implement the following compensating controls to mitigate the lack of a proper segregation of duties over his operations.

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any difference should be reconciled. The Sheriff should document this by initialing the quarterly financial report.
- The Sheriff or someone independent of the Sheriff's Office should prepare the bank reconciliation. The Sheriff should document this by initialing the bank reconciliation.

*Sheriff's Response:*

*None*

PRIOR YEAR:

- The Sheriff Has A Lack Of Adequate Segregation Of Duties
- The Sheriff Should Have Required The Depository Institutions To Pledge Or Provide Additional Collateral of \$315,202 To Protect Deposits

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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The Honorable Bruce Ramsey, Wayne County Judge/Executive  
The Honorable James L. Hill, Wayne County Sheriff  
Members of the Wayne County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Wayne County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated February 7, 2005. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Wayne County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Not Transfer Funds Between Accounts
- The Sheriff Should Compensate Deputies Properly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wayne County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Has A Lack of Adequate Segregation of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -  
February 7, 2005

